Executive summary

Following the recent adoption of the federal tax reform package by the Swiss Parliament, the Swiss cantons are now outlining their corporate tax strategies for local implementation.

In June 2016, the Swiss Parliament approved the final bill on the third series of corporate tax reform (CTR III), foreseeing the replacement of certain preferential tax regimes with a new set of internationally accepted measures. The legislative changes will go along with a broad reduction of corporate income tax rates to 11.5%-14% (including federal taxes) in most relevant cantons. The reform aims to ensure that Switzerland remains attractive for multinational corporations while being fully aligned with international taxation standards in a post-base erosion and profit shifting (BEPS) world.

The cantons are required to adjust their cantonal tax laws in accordance with CTR III. While some measures are mandatory and must be implemented by the cantons, others are optional. Each canton will implement the CTR III by tailoring its individual cantonal tax legislation to its specific needs and circumstances.

On 31 October 2016, the Government of the canton of Solothurn presented its strategy to implement CTR III into its cantonal tax law. Inter alia, the plan includes the introduction of a patent box, research and development (R&D) super deduction and a notional interest deduction (NID) on surplus equity. Additionally, the headline corporate income tax rate is to be reduced from 21.8% to 12.9% (including federal tax).
Detailed discussion

In order to improve its attractiveness as a business location, the canton of Solothurn plans to introduce the following core measures for the local implementation of CTR III:

Tax rate reductions
The corporate income tax rate is to be reduced from the current maximum rate of 21.8% to 12.9% (including federal tax).

The capital tax rate shall be reduced from 0.08% to 0.02%. In addition, a further capital tax relief on the company’s net equity related to participations, patents and similar intangibles as well as intercompany loans shall be provided.

Patent box and R&D super deduction
As mandated by the federal draft legislation, the canton of Solothurn will introduce a patent box (modified nexus approach). The patent box will be available at the cantonal level and the resulting tax relief for income related to the patent box will be set at 90%, which may result in an effective tax rate of as low as 8.3% for qualifying income.

The introduction of an R&D super deduction is considered to be of great importance for corporations established in the canton of Solothurn. Hence, qualifying R&D expenses should become eligible for an increased cantonal tax deduction of 150%.

NID on surplus equity
The canton of Solothurn plans to introduce the NID on the cantonal level in addition to the NID that will be enacted on the federal level in order to incentivize group financing activities.

Limitation of cantonal tax relief
According to federal law, the total reduction of taxable income on the basis of the patent box, the R&D super deduction and the NID must not exceed 80% of the taxable profit (before offsetting tax loss carry-forwards and without considering participation income). The cantons are free to limit cantonal benefits to a lower percentage. The Government of the canton of Solothurn has decided that the cantonal tax relief resulting from the patent box, R&D super deduction and the notional interest deduction shall be limited to approximately 60% to 70% of the taxable profit. It should be noted that the NID at the federal level is not affected by this restriction and may provide additional relief in excess of the cantonal limitation.

Transitional measures
In the case of a company transitioning from privileged taxation to ordinary taxation, the canton of Solothurn intends to set the cantonal tax rate for the reduced taxation of existing built-in gains at 1-1.5% (so-called “two-tax rate model”). By applying the two-tax rate model during a five year transition period, an abrupt increase of the respective corporations’ income tax burden is avoided.

Outlook
A cantonal draft bill is in development and the public consultation process in the canton of Solothurn is expected to begin in early 2017. Thereafter, the Parliament of the canton of Solothurn is required to formally adopt the bill. The federal bill is subject to a popular referendum, which is scheduled to take place on 12 February 2017. Provided Swiss voters formally approve the reform package in the upcoming vote, the Swiss corporate tax reform will enter into force on 1 January 2019.

Endnote
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